

## Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 /109 W

----- 016365

R 241455Z NOV 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1750

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 4855

DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF NOV 16-22

1. SUMMARY: THE DOLLAR ROSE THEN FELL THIS WEEK UNDER A VARIETY OF CONFLICTING INFLUENCES. INTEREST RATES EASED LOWER IN THE LIQUID MARKET. IN A SPEECH THIS WEEK, SWISS NATIONAL BANK (SNB) PRESIDENT LEUTWILER EXPRESSED SURPRISE AT FRENCH OPPOSITION TO SWISS PARTICIPATION IN THE SNAKE AND REJECTED FRENCH PROPOSALS FOR ADDITIONAL CAPITAL CONTROLS. IN OCT, SWITZERLAND RECORDED SURPLUSES IN ITS MERCHANDISE TRADE WITH BOTH THE WORLD AND THE US.

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## FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: IN THE FIRST PART OF THE WEEK THE DOLLAR FIRMED TO A HIGH OF SF 2.6785 DURING THE DAY ON NOV 18 UNDER THE VARIOUS INFLUENCES OF THE DELCARATION OF RAMBOUILLET, REPORTS OF FEDERAL ASSISTANCE FOR NEW YORK CITY, AND FAVORABLE US TRADE FIGURES. HOWEVER, THE SWISS ANNOUNCEMENT THAT IT WOULD NOT JOIN THE EUROPEAN SNAKE AT THIS TIME (SEE BERN 4790) AND THE RISE IN THE US CONSUMER PRICE INDEX FOR OCT PUSHED THE DOLLAR BACK DOWN AGAIN. WHILE THE FOREIGN EXCHANGE MARKET SHOWED SOME ACTIVITY EARLY IN THE WEEK, TRADING WAS GENERALLY QUIET WITH RELATIVELY LOW TURNOVER. GOLD PRICES FLUCTUATED DOWNWARD THEN RECOVERED IN A QUIET MARKET. RATES AS FOLLOWS:

|                               | 11/17(OPEN) | 11/21 (CLOSE) |
|-------------------------------|-------------|---------------|
| SPOT DOLLAR                   | SF 2.6650   | SF 2.6520     |
| FORWARD DISCOUNTS (PCT. P.A). |             |               |
| ONE MONTH                     | - 4.8       | - 5.0         |
| 2 MONTHS                      | - 3.4       | - 3.2         |
| 3 MONTHS                      | - 3.4       | - 3.5         |
| 6 MONTHS                      | - 3.6       | - 3.6         |
| 12 MONTHS                     | - 3.3       | - 3.4         |
| SF/DM                         | SF 102.65   | SF 102.38     |
| GOLD                          | \$ 141.75   | \$141.00      |

3. MONEY AND CAPITAL MARKETS: THE MONEY MARKET IS STILL QUITE LIQUID AND THE CALL MONEY RATE WAS UNCHANGED AT 0.5 PERCENT. THE FOUR LARGEST SWISS BANKS REDUCED THEIR INTEREST RATES ON NEW MEDIUM AND LONG-TERM EXPORT CREDITS BY 0.25 PERCENT ON NOV 19. STOCK PRICES INCHED UPWARD SLIGHTLY AND ON NOV 21 THE SKA INDEX WAS 191.7 (END 1959 EQUALS 100). THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS CONTINUED ITS SLOW DOWNWARD SLIDE BY DROPPING FROM 6.03 PERCENT ON NOV 14 TO 6.0 PERCENT ON NOV 21.

4. SPEECH BY SNB PRESIDENT: SPEAKING BEFORE THE CANTON VAUD CHAMBER OF COMMERCE, SNB PRESIDENT LEUTWILER EXPRESSED SURPRISE AT FRENCH OPPOSITION TO SWISS PARTICIPATION IN THE EUROPEAN MONETARY SNAKE. LEUTWILER SAID THE PRINCIPAL FRENCH UNCLASSIFIED

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ARGUMENT WAS THAT THE SF WAS TOO STRONG AND SWITZERLAND SHOULD INSTITUTE ADDITIONAL CONTROLS AGAINST CAPITAL INFLOWS. HE WENT ON HOWEVER, TO SAY THAT THE EXISTING CONTROLS ARE SUFFICIENT UNDER PRESENT CIRCUMSTANCES AND SWITZERLAND CANNOT AND WILL NOT ACCEPT THE FRENCH PROPOSALS. IND DISCUSSING THE FOREIGN EXCHANGE MARKETS, LEUTWILER STATED THAT SINCE THE FIRST OF THIS YEAR SNB INTERVENTION HAS TOTALED SF 9 BILLION (APPROX DOLLARS 3.5 BILLION) WHICH

HAS BEEN LARGELY OFFSET BY SF 7.7 BILLION (DOLLARS 3 BILLION)  
IN SALES OF FOREIGN EXCHANGE FOR THE COMPULSORY CONVERSION OF  
CERTAIN CAPITAL EXPORTS. ON THE DOMESTIC FRONT, HE INDICATED  
THAT WHILE THE MONEY SUPPLY HAS BEEN GROWING AT AN ANNUAL  
RATE SOMEWHAT BELOW THE 6 PERCENT TARGET, THE SNB DOES NOT  
BELIEVE ANY ADDITIONAL STIMULATIVE OR RESTRICTIVE ACTIONS  
ARE DESIRABLE AT THIS TIME. LEUTWILER EMPHASIZED, HOWEVER,  
THAT THE CAPITAL MARKET WILL NOT BE ABLE TO ADEQUATELY HANDLE  
SOME SF 3 BILLION IN EXPECTED PUBLIC SECTOR DEFICITS  
NEXT YEAR AND A PORTION OF THESE DEFICITS SHOULD BE FINANCED  
THROUGH RECOURSE TO SHORTER-TERM BANK CREDIT.

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LAB-04 SIL-01 /109 W

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R 241455Z NOV 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1751

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

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DEPT PASS TREASURY AND FRB

ECONOMIC

5. FOREIGN TRADE: IN OCT, FOR THE THIRD TIME THIS YEAR, SWITZERLAND RECORDED A SURPLUS IN ITS MERCHANDISE TRADE WITH BOTH THE WORLD AND WITH THE US. WHILE THE VALUE OF WORLD IMPORTS AND EXPORTS DECLINED IN COMPARISON WITH OCT 1974, IMPORTS FELL MUCH MORE SHARPLY TO PRODUCE A SURPLUS OF SF 99 MILLION (COMPARED WITH A DEFICIT OF SF 617 MILLION A YEAR EARLIER). DURING THE FIRST TEN MONTHS OF THIS YEAR, THE TOTAL TRADE DEFICIT AMOUNTED TO SF 1,514 MILLION, OR 78.6 PERCENT LESS IN THE SAME PERIOD IN 1974. THE OCT TRADE SURPLUS WITH THE US WAS A MODEST SF 2 MILLION, DOWN CONSIDERABLY

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FROM THE OCT 1974 SURPLUS OF SF 34 MILLION. THE JAN-OCT DEFICIT WITH THE US WAS SF 489 MILLION, OR MORE THAN TWICE AS LARGE AS THE DEFICIT IN THE FIRST TEN MONTHS OF 1974. TRADE FIGURES ARE SHOWN BELOW:

|         | WORLD                                          | US            |
|---------|------------------------------------------------|---------------|
|         | MILLION SF (PCT. CHANGE OVER SAME PERIOD 1974) |               |
| OCTOBER |                                                |               |
| IMPORTS | 3,061 (-21.7)                                  | 224 (UP 7.9)  |
| EXPORTS | 3,160 (- 4.0)                                  | 226 (- 6.4)   |
| JAN-OCT |                                                |               |
| IMPORTS | 28,870 (-20.7)                                 | 2,210 (-5.0)  |
| EXPORTS | 27,355 (-6.7)                                  | 1,721 (-17.5) |

6. WATCH EXPORTS: IN COMPARISON WITH OCT 1974, SWISS WATCH EXPORTS TO THE WORLD DURING OCT WERE DOWN 11.7 PERCENT IN VALUE AND 7.8 PERCENT IN VOLUME. FOR THE FIRST TEN MONTHS OF THIS YEAR WATCH EXPORTS WERE DOWN 16.3 PERCENT IN VALUE AND 24.6 PERCENT IN VOLUME.

7. ECONOMIC COUNCIL PROPOSAL: SNB DIRECTOR LEO SCHURMANN (WHO WILL REPLACE ALEXANDRA HAY AS VICE PRESIDENT AND HEAD OF THE BERN DEPARTMENT ON JAN 1) IN A SPEECH THIS WEEK PROPOSED THE FORMATION OF A NATIONAL ECONOMIC AND SOCIAL COUNCIL MADE UP OF REPRESENTATIVES OF GOVT, LABOR, BUSINESS. THE PURPOSE OF THE COUNCIL, ACCORDING TO SCHURMANN, WOULD BE TO AVOID EXCESSIVE GOS DOMINATION OF THE ECONOMY.

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